

Before the
Federal Communications Commission
Washington, DC 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the matter of)
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Federal-State Joint Board on)
Universal Service)
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Preface

Summary of
Response to Questions dated July 3, 1996
Rural Utilities Service

Universal service, interconnection, toll separations and access charge reform are interrelated. All of these sources contribute to universal service and must be treated as a whole. Rural residents, regardless of their provider, must benefit from the promise of universal service codified in the Act.

1. In general, current rates are affordable.
2. Non-rate factors should be considered.
4. Provision of core services should be a requirement.
10. Any expanded availability of service should be on a non profit basis, with full reimbursement to the telecommunications provider.
16. RUS supports Vice President Gore's proposal for free basic telecommunications services and deeply discounted advanced services to schools and libraries.
17. Universal service support should be provided on a nondiscriminatory basis to service providers who have been providing services with or without discount.
19. Rural rates should be comparable to urban/suburban rates, educational function to educational function.
24. RUS has developed cost estimates based on urban and rural cost information obtained from the National Exchange Carriers Association.

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31. If a bifurcated plan is used, the focus should be on rural residents, not rural companies. The rural resident should get the same service and affordability whether served by a "rural company" or a "nonrural company."

34. Additional programs may not be needed for insular areas since the main challenge is cost which can be met with cost support.

39. Universal service is an evolving standard. Any acceptable model, such as a proxy model, should be able to evolve as well.

43. If a proxy cost method is used, and if that model fails to provide universal service, recourse must be available.

46. A proxy model should not be based on proprietary data.

52. Competitive bidding will place downward pressure on quality and reliability of service.

58. RUS will comment more fully on the BCM II in a separate response to the Commission. For costing model purposes, the smaller the study area, the better.

Response to Questions dated July 3, 1996 **Rural Utilities Service**

Introduction

The Rural Utilities Service (RUS) appreciates the opportunity to offer comment to the Commission and the Joint Board in response to the Specific Questions dated July 3, 1996.

The Joint Board and most commenters have acknowledged the interrelationship among universal service, interconnection, toll separations and access charge reform. This relationship is clear in rural telecommunications. For RUS financed companies, which represent 71 percent of all independent LECs, only 24.4 percent of their gross revenue comes from local service fees -- 67.1 percent comes from network access charges, universal service payments and long distance services (12.2 percent comes from the universal service fund). Another 8.5 percent of gross revenue comes from non-recurring charges such as installation fees. All these sources contribute to the provision of universal service and must be treated as an interconnected whole.

Independent companies serve about half of the rural areas in this country. RBOCs serve the other half. Some commenters have suggested separating the treatment of independent companies from RBOCs in the universal service and interconnection proceedings. Any such approach must be implemented carefully so that it does not result in unequal treatment of rural residents solely on the basis that they happen to be served by either an independent or RBOC company. Rural residents, regardless of their provider must benefit from the promise of universal service codified in the Act.

In the RUS comments on the original Notice of Proposed Rulemaking dated April 12, 1996, RUS offered a five-pronged test (the RUS Test) which could be used to evaluate any aspect of a universal service support mechanisms. The RUS Test is restated below

The RUS Test

A successful mechanism would:

1. Provide incentives for competition. The mechanism must encourage competition and provide incentives to attract new entrants. It should not, however, artificially support competition in a manner that cannot sustain multiple universal service providers.
2. Provide an adequate safety net. The mechanism must ensure that rural citizens can receive services of like quality, type, and performance as typical urban or suburban citizens.
3. Provide for a changing infrastructure. The mechanism must be flexible enough to maintain good, improve inadequate and serve the unserved with universal service infrastructure, whether wireline, wireless or satellite. All facilities must be cost effective and capable of evolving - migrating - to meet the changing definition of core services, and must not inhibit the evolution to advanced services.
4. Provide affordable service. The mechanism must ensure that core services are affordable both in monthly charge and initial service connection cost, anticipating possible revenue losses from new entrants.
5. Do no harm. The best parts of the rural infrastructure are a national treasure. The new mechanism should not dismantle the good parts of what has taken so long to build.

The Questions and RUS Answers

Definitions Issues

1. Is it appropriate to assume that current rates for services included within the definition of universal service are affordable, despite variations among companies and service areas?

In general, current rates are affordable. However, because current rates are based on fixed monthly fees, a resident with a high income will pay less proportionately than a lower income resident. Ultimately, affordability needs to be examined in the context of (1) income; and (2) value of the service offered

2. To what extent should non-rate factors, such as subscribership level, telephone expenditures as a percentage of income, cost of living, or local calling area size be considered in determining the affordability and reasonable comparability of rates?

They should be considered. The focus should be on ensuring access to the network and the value of the service provided.

4. What are the effects on competition if a carrier is denied universal service support because it is technically infeasible for that carrier to provide one or more of the core services?

There will probably be less competition because there will be fewer providers who can afford to provide all core services. Provision of the core services, however, should be a requirement.

This question raises the larger issue of whether the Joint Board should encourage competition even if it has to do so by artificially supporting competitors. The goal should be to provide enough support to encourage competition without creating an unsustainable/artificial environment.

Schools, Libraries, Health Care Providers

10. Should the resale prohibition in Section 254(h)(3) be construed to prohibit only the resale of services to the public for profit, and should it be construed so as to permit end user cost based fees for services? Would construction in this matter facilitate community networks and/or aggregation of purchasing power?

As a public policy matter, not necessarily law, RUS believes that if there is no existing community access to useful services, it would be unfortunate to bar a community from taking advantage of advanced services that are available at a school. It would be like putting a meal under glass and denying a hungry person a bite. The Act intended to remove artificial regulatory barriers to advancement of the network. Any expanded availability of service should be on a non profit basis, with full reimbursement to the telecommunications provider.

16. What should be the base service prices to which discounts for schools and libraries are applied: (a) total service long-run incremental cost; (b) short-run incremental costs; (c) best commercially-available rate; (d) tariffed rate; (e) rate established through a competitively-bid contract in which schools and libraries participate; (f) lowest of some group of the above; or (g) some other benchmark? How could the best commercially-available rate be ascertained, in light of the fact that many such rates may be established pursuant to confidential contractual arrangements?

RUS supports Vice President Gore's proposal for free basic telecommunications services and deeply discounted advanced services to schools and libraries. The benchmark amount should be a sufficient incentive to provide good, quality service. If carriers do not want to provide the services, access will be retarded.

17. How should discounts be applied, if at all, for schools and libraries and rural health care providers that are currently receiving special rates?

RUS' experience with its Distance Learning Telemedicine Grant Program (90 grants in 39 states over 3 years) has demonstrated that some schools, libraries and rural health care providers already receive discounted pricing of communications services from service providers. These discounts sometimes are only for a limited time.

The discounts often are offered as a community service. Once universal service support mechanisms are in place, and particularly in competitive markets, these discounts may fall by the wayside.

The discounts required by the Act should be applied even where a carrier already is providing advanced services at a discount. The objective should be to create an environment where service providers want to provide these services to schools, libraries, and rural health care providers. We should not place providers at a competitive disadvantage just because they have been providing discounted services to these users. Universal service support should be provided on a nondiscriminatory basis to service providers who have been providing services with or without discount.

19. Should an additional discount be given to schools and libraries located in rural, insular, high-cost and economically disadvantaged areas? What percentage of telecommunications services (e.g., Internet services) used by schools and libraries in such areas are or require toll calls?

This is an issue of cost and function. Rural rates should be compared to urban/suburban rates, educational function to educational function. For example, the support could conform the cost of a remote distance learning classroom in a rural town 100 miles from the urban point of origination to the cost of that same distance learning classroom in a suburb of the urban point of origination.

Regarding availability of Internet connection, RUS does not have data on connectivity for Regional Bell Operating Company (RBOCs) and larger independents. In August of 1995, however, RUS conducted a survey of its telecommunications borrower companies and cooperatives and found that 218 (of approximately 900) borrowers provided internet access on a non-toll basis. These 218 borrowers also provided non-toll Internet access to 81 hospitals and 582 schools.

24. Are there other cost estimates available that can serve as the basis for establishing a funding estimate for the discount provisions applicable to schools and libraries and to rural health care providers?

In the prepared statement of Mr. Adam M. Golodner, Deputy Administrator, Rural Utilities Service, to the Joint Board on June 19, 1996, national average costs for DS1 (T-1) circuits were given. These costs were based on urban and rural cost information obtained from the National Exchange Carriers Association. An average urban metropolitan user located 30 miles from an urban center would pay \$984 per month for T-1 service. An average rural user located 100 miles from the metropolitan center would pay \$3140 per month. The cost of the same service to a rural user located 300 miles from the metropolitan center is \$8160 per month. See June 19, 1996 Statement.

High Cost Fund

General Questions

31. If a bifurcated plan that would allow the use of book costs (instead of proxy costs) were used for rural companies, how should rural companies be defined?

If a bifurcated plan is used, the focus should be on rural residents, not rural companies. Rural areas are served by RBOCs, large independents and other independents. The issue

is the high cost-to-serve the rural customer, not the size or nature of the company which serves that customer. The rural resident should get the same service and affordability whether served by a "rural company" or a "nonrural company."

Proxy Models

34. What, if any, programs, (in addition to those aimed at high-cost areas) are needed to ensure that insular areas have affordable telecommunications service?

Additional programs may not be needed. The main challenge is cost. No special technology is required simply because an area is remote. Insular areas are sometimes provided with more plant redundancy due to the isolation, but this requirement can be met with cost support

For example, islands are very high cost areas for construction of local service plant due to higher-than-normal transportation costs and labor costs (typically 250 to 300 percent of normal costs). In addition, islands further than a microwave hop from the mainland or from each other require special measures for interexchange connectivity. Undersea cable or satellite links are needed for these remote islands. For local exchange construction, the primary issue is very high cost. For interexchange connectivity, again the issue is very high cost.

Remote Alaskan villages are similar to islands. They have high transportation costs and need to have satellite connectivity for interexchange service. Construction costs are similar to island construction costs.

39. Should a proxy model account for the cost of access to advanced telecommunications and information services, as referenced in Section 254(b) of the Act? If so, how should this occur?

Universal service is an evolving standard. Any acceptable model should be able to evolve as well. Such a model might require additional considerations for rural America. In many rural areas, Internet access is still a toll call service. This could be addressed by either designating internet as a service to be supported, or reimbursing toll charges through the support mechanism.

43. Should there be recourse for companies whose book costs are substantially above the costs projected for them under a proxy model? If so, under what conditions (for example, at what cost levels above the proxy amount) should carriers be granted a waiver allowing alternative treatment? What standards should be used when considering such requests?

The intent of a proxy model is to provide enough support to ensure universal affordable service in an efficient manner. If a proxy cost method is used, and if that model fails to provide universal service -- yes, waivers should be available. Otherwise the fundamental purpose of the model has been frustrated.

Following other provisions of the Act, state commissions could be the initial adjudicators, with appeal to the Commission. The threshold should be relatively low, so the clear public policy of universal service is not frustrated. Perhaps, even the transaction costs to the challenger would be enough of a threshold. The challenger should have to show that it can not achieve universal service at the proxy cost model amount and that it is not unreasonably inefficient. Perhaps the state commissions could be given authority to force efficiencies through infrastructure sharing and other methods.

In evaluating a recourse process, the RUS Test may be helpful. Specifically, the process needs to:

1. Provide incentives for competition. A model-with-recourse plan would provide some areas with more support, and adequate support encourages competition as well as universal service.
2. Provide an adequate safety net. Any threshold level above the proxy amount should not leave a large gap into which many areas would fall and receive inadequate support.
3. Provide for a changing infrastructure. A model-with-recourse plan should be flexible enough to maintain the good infrastructure, and to enable a new entrant to join the market with, perhaps, a new technological approach to service, and an assurance of receiving an adequate and predictable level of support. The recourse process should provide reasonable examination of an appellant's efficiency of plant construction and plant operation to ensure cost efficiency, and may lead to forced infrastructure sharing, but it should not inherently impede a service provider from building plant that is capable of evolving to advanced services.
4. Provide affordable service. The recourse mechanism would be in place to ensure affordability, but if a high threshold level above the proxy amount is required for a provider to seek or gain recourse, some carriers may receive inadequate support based on the costing model. These carriers might not be able to provide affordable service.
5. Do no harm. This is the strength of a model-with-recourse plan.

This model should apply to RBOCs, independents and other providers so that the focus is on the rural resident -- not the provider

46. Should a proxy model be adopted if it is based on proprietary data that may not be available for public review?

No. Universal service support mechanisms may not enjoy the support of the public or of telecommunications providers unless the mechanisms are developed in the open and are subject to review.

Competitive Bidding

52. What safeguards should be adopted to ensure adequate quality of service under a system of competitive bidding?

Competitive bidding will place downward pressure on quality and reliability of service. A successful bidder may win the opportunity to serve an area by denying itself the resources that may be required to provide high quality, reliable service.

Benchmark Cost Model (BCM)

RUS will comment on the BCM II in a separate response to the Commission.

58. What are the advantages and disadvantages of using a wire center instead of a Census Block Group as the appropriate geographic area in projecting costs?

In rural areas there is little uniformity among large groups of subscribers. For costing model purposes, the smaller the study area the better. Census Block Groups are probably too large to assume homogeneity in many rural areas, and wire centers are even larger, and suffer from the same limitation.

Conclusion

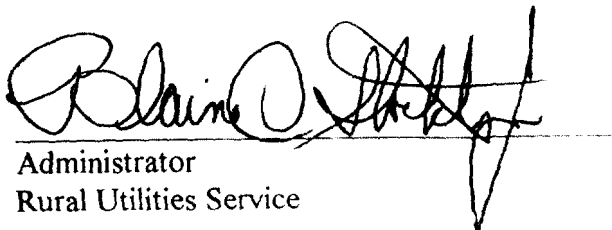
Rural areas have challenges different from those in urban and suburban areas. The universal service, interconnection and access charge proceedings will determine whether rural residents, one out of every five Americans, have affordable service which is comparable in quality and value to that available in urban and suburban areas.

Rural areas are served by RBOCs and independents. Soon they will be served by others. The regulatory structure should not segregate and give different quantities or qualities of support based on which type of company serves rural residents. The focus must continue to be on rural residents, not companies

The Rural Utilities Service appreciates the opportunity to offer comment in response to these questions.

Dated: AUG 02 1996

Acting Administrator
Rural Utilities Service

A handwritten signature in black ink, appearing to read "Blaine O. Hinkle", is written over a horizontal line. The signature is stylized with large, flowing letters and a long, sweeping underline that extends to the right.